



HOLLAND BOARD OF PUBLIC WORKS

HOLLAND, MICHIGAN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

HOLLAND BOARD OF PUBLIC WORKS

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INDEPENDENT AUDITORS' REPORT

September 22, 2008

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the Holland Board of Public Works, (enterprise funds of the City of Holland, Michigan) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Holland Board of Public Works' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Holland Board of Public Works Enterprise Funds and do not purport to, and do not present fairly the financial position of the City of Holland, Michigan, as of June 30, 2008 and the changes in its financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the Holland Board of Public Works, as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008 on our consideration of the Holland Board of Public Works' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Holland Board of Public Works has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Public Works' financial statements. The combining fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Holland Board of Public Works. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

HOLLAND BOARD OF PUBLIC WORKS

Statement of Net Assets

June 30, 2008

(with comparative totals for the year ended June 30, 2007)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2008	2007
Assets					
Current assets					
Cash and cash equivalents	\$ 26,595,806	\$ 2,074,730	\$ 3,152,647	\$ 31,823,183	\$ 21,847,610
Investments	41,478,810	15,005,270	1,500,000	57,984,080	51,153,270
Receivables:					
Accounts receivable	5,198,290	813,735	421,483	6,433,508	6,940,430
Unbilled revenue	3,757,112	164,967	282,378	4,204,457	4,275,811
Special assessments and other	-	152,805	130,059	282,864	300,579
Accrued interest	634,933	226,692	57,236	918,861	603,572
Due from other funds of the					
City of Holland	255,424	97,588	131,458	484,470	487,656
Inventories	7,373,535	37,398	168,527	7,579,460	9,763,521
Prepaid expenses	136,533	45	3,514	140,092	204,747
Total current assets	85,430,443	18,573,230	5,847,302	109,850,975	95,577,196
Noncurrent assets					
Restricted assets:					
Cash and cash equivalents	-	1,143,127	5,182,405	6,325,532	11,642,229
Investments	4,487,482	2,000,000	1,814,299	8,301,781	8,815,212
Accrued interest	-	66,239	-	66,239	11,775
Total restricted assets	4,487,482	3,209,366	6,996,704	14,693,552	20,469,216
Capital assets:					
Land	4,810,124	260,673	1,731,894	6,802,691	6,770,352
Construction in progress	761,048	502,581	631,901	1,895,530	6,343,273
Plant and equipment	210,285,257	64,986,890	50,026,843	325,298,990	313,890,535
Accumulated depreciation	(142,641,143)	(34,345,029)	(17,478,840)	(194,465,012)	(183,476,242)
Total capital assets, net	73,215,286	31,405,115	34,911,798	139,532,199	143,527,918
Total noncurrent assets	77,702,768	34,614,481	41,908,502	154,225,751	163,997,134
Total assets	163,133,211	53,187,711	47,755,804	264,076,726	259,574,330

The accompanying notes are an integral part of these financial statements.

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2008	2007
Liabilities					
Current liabilities					
Accounts payable	\$ 5,765,881	\$ 314,816	\$ 2,846,523	\$ 8,927,220	\$ 9,212,577
Accrued salaries and wages payable	460,038	196,946	159,819	816,803	739,066
Due to other funds of the					
City of Holland	279,142	29,369	200,167	508,678	262,222
Deposits	155,036	-	-	155,036	161,372
Accrued interest payable	-	13,916	-	13,916	15,697
Current maturities of bonds payable	-	546,000	-	546,000	521,500
Current liabilities payable from restricted assets:					
Bonds payable	-	-	790,000	790,000	3,460,000
Accrued interest payable	-	-	368,750	368,750	420,038
Total current liabilities	6,660,097	1,101,047	4,365,259	12,126,403	14,792,472
Long-term debt - net of current portion	-	2,966,115	17,412,312	20,378,427	21,622,802
Total liabilities	6,660,097	4,067,162	21,777,571	32,504,830	36,415,274
Net assets					
Invested in capital assets, net of related debt	73,215,286	27,893,000	16,709,486	117,817,772	117,923,616
Restricted for:					
Debt service	-	-	1,825,349	1,825,349	1,758,365
Equipment replacement	-	2,556,662	-	2,556,662	2,379,963
Park Township	-	-	172,727	172,727	150,136
Cooperative payments	4,487,482	652,704	-	5,140,186	4,180,184
Construction	-	-	3,839,878	3,839,878	6,714,676
Unrestricted	78,770,346	18,018,183	3,430,793	100,219,322	90,052,116
Total net assets	\$ 156,473,114	\$ 49,120,549	\$ 25,978,233	\$ 231,571,896	\$ 223,159,056

HOLLAND BOARD OF PUBLIC WORKS

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2008	2007
Operating revenue					
Residential sales	\$ 15,510,281	\$ 1,528,329	\$ 1,699,279	\$ 18,737,889	\$ 18,535,108
Commercial sales	29,127,136	1,299,254	1,361,035	31,787,425	35,101,042
Industrial sales	32,024,992	484,919	690,532	33,200,443	32,495,776
Wholesale	-	1,740,862	1,467,074	3,207,936	3,050,051
Fees and other	2,462,948	1,923,563	476,653	4,863,164	5,078,038
Total operating revenue	79,125,357	6,976,927	5,694,573	91,796,857	94,260,015
Operating expenses					
Salaries and wages	2,808,765	987,832	723,706	4,520,303	4,822,957
Employee benefits	1,989,771	618,583	460,075	3,068,429	3,215,960
Production	50,837,383	2,147,491	531,630	53,516,504	53,168,857
Distribution	3,103,543	604,581	487,530	4,195,654	3,958,878
Administrative and general	3,847,350	1,700,700	1,497,652	7,045,702	6,007,212
Depreciation	8,674,587	1,723,682	1,204,112	11,602,381	11,961,056
Total operating expenses	71,261,399	7,782,869	4,904,705	83,948,973	83,134,920
Operating income (loss)	7,863,958	(805,942)	789,868	7,847,884	11,125,095
Nonoperating income (expense) - net					
Interest income	2,733,768	979,672	451,197	4,164,637	3,893,391
Interest expense	(267)	(217,817)	(638,708)	(856,792)	(1,202,225)
Insurance refunds	41,593	20,797	20,797	83,187	-
Gain (loss) on sale and disposal of capital assets	63,240	(6,037)	(15,041)	42,162	16,228
Total nonoperating income (expense) - net	2,838,334	776,615	(181,755)	3,433,194	2,707,394
Net income (loss) before contributions and transfers	10,702,292	(29,327)	608,113	11,281,078	13,832,489
Capital contributions					
Infrastructure	-	51,460	81,640	133,100	216,765
Trunkage	-	139,242	54,820	194,062	400,504
Total capital contributions	-	190,702	136,460	327,162	617,269
Transfers out to other funds of the City	(3,195,400)	-	-	(3,195,400)	(2,840,400)
Change in net assets	7,506,892	161,375	744,573	8,412,840	11,609,358
Net assets, beginning of year	148,966,222	48,959,174	25,233,660	223,159,056	211,549,698
Net assets, end of year	<u>\$ 156,473,114</u>	<u>\$ 49,120,549</u>	<u>\$ 25,978,233</u>	<u>\$ 231,571,896</u>	<u>\$ 223,159,056</u>

The accompanying notes are an integral part of these financial statements.

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows

For the Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2008	2007
Cash flows from operating activities					
Receipts from customers and users	\$ 79,563,027	\$ 7,011,900	\$ 5,821,107	\$ 92,396,034	\$ 92,911,604
Payments to suppliers	(56,757,852)	(4,360,744)	(1,435,785)	(62,554,381)	(61,951,056)
Payments to employees	(4,765,029)	(1,590,618)	(1,155,348)	(7,510,995)	(8,038,917)
Net cash provided by operating activities	18,040,146	1,060,538	3,229,974	22,330,658	22,921,631
Cash flows from noncapital financing activities					
Insurance refunds	41,593	20,797	20,797	83,187	-
Transfers to other funds of the City	(3,195,400)	-	-	(3,195,400)	(2,840,400)
Net cash (used in) provided by noncapital financing activities	(3,153,807)	20,797	20,797	(3,112,213)	(2,840,400)
Cash flows from capital and related financing activities					
Principal paid on long-term debt	(2,705,000)	(521,500)	(755,000)	(3,981,500)	(3,436,194)
Interest paid on long-term debt	(35,432)	(188,367)	(594,437)	(818,236)	(1,184,242)
Capital contributions received	-	139,242	54,820	194,062	400,504
Proceeds from sale of capital assets	82,115	16,595	25,139	123,849	23,557
Purchase of property, plant and equipment	(3,469,310)	(1,142,899)	(2,943,040)	(7,555,249)	(6,632,310)
Net cash (used in) capital and related financing activities	(6,127,627)	(1,696,929)	(4,212,518)	(12,037,074)	(10,828,685)
Cash flows from investing activities					
Interest income	2,581,153	810,437	403,294	3,794,884	3,602,963
Purchase of investment securities	(45,966,292)	(17,005,270)	(3,314,299)	(66,285,861)	(59,968,482)
Proceeds from sale or maturities of investment securities	40,375,374	16,841,580	2,751,528	59,968,482	56,003,351
Net cash (used in) provided by investing activities	(3,009,765)	646,747	(159,477)	(2,522,495)	(362,168)
Net increase (decrease) in cash and cash equivalents	5,748,947	31,153	(1,121,224)	4,658,876	8,890,378
Cash and cash equivalents, beginning of year	20,846,859	3,186,704	9,456,276	33,489,839	24,599,461
Cash and cash equivalents, end of year	<u>\$ 26,595,806</u>	<u>\$ 3,217,857</u>	<u>\$ 8,335,052</u>	<u>\$ 38,148,715</u>	<u>\$ 33,489,839</u>
Statement of net assets classification of cash and cash equivalents					
Cash and cash equivalents	\$ 26,595,806	\$ 2,074,730	\$ 3,152,647	\$ 31,823,183	\$ 21,847,610
Restricted assets, cash and cash equivalents	-	1,143,127	5,182,405	6,325,532	11,642,229
Total cash and cash equivalents	<u>\$ 26,595,806</u>	<u>\$ 3,217,857</u>	<u>\$ 8,335,052</u>	<u>\$ 38,148,715</u>	<u>\$ 33,489,839</u>

(Continued)

HOLLAND BOARD OF PUBLIC WORKS

Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2008
(with comparative totals for the year ended June 30, 2007)

	Electric Utility	Wastewater Utility	Water Utility	Business-Type Activities	
				2008	2007
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 7,863,958	\$ (805,942)	\$ 789,868	\$ 7,847,884	\$ 11,125,095
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	8,674,587	1,723,682	1,204,112	11,602,381	11,961,056
Changes in operating assets and liabilities which provided (used) cash					
Receivables	375,453	(14,026)	234,564	595,991	(1,115,580)
Due from other funds of the City of Holland	62,217	48,999	(108,030)	3,186	(232,831)
Inventories	2,198,735	(5,249)	(9,425)	2,184,061	89,123
Prepaid expenses	57,748	5,458	1,449	64,655	(63,081)
Accounts payable	(1,483,768)	93,556	1,104,855	(285,357)	1,366,118
Accrued salaries and wages payable	33,507	15,797	28,433	77,737	32,186
Due to other funds of the City of Holland	264,045	(1,737)	(15,852)	246,456	(213,269)
Deposits	(6,336)	-	-	(6,336)	(27,186)
Net cash provided by operating activities	<u>\$ 18,040,146</u>	<u>\$ 1,060,538</u>	<u>\$ 3,229,974</u>	<u>\$ 22,330,658</u>	<u>\$ 22,921,631</u>

Non-cash transaction

The Board received noncash capital contributions of \$51,460 and \$81,640 in the wastewater and water utilities, respectively.

The accompanying notes are an integral part of these financial statements.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Holland Board of Public Works (the “Board”) is comprised of three enterprise funds of the City of Holland (the “City”). It operates under direction of the City Charter and City Council resolution. The Board provides electric, water and wastewater services to users in the City of Holland and portions of the surrounding area. The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Board enterprise funds are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the Holland Board of Public Works. For the most part, the effect of interfund activity has been removed from these statements.

Major individual enterprise funds are reported as separate columns in the statements.

The Board reports the following major enterprise funds:

Electric Utility Fund – This fund is used to account for the electric utility which include fees and costs associated with the generation, purchase, transmission, distribution and sale of electricity.

Wastewater Utility Fund – This fund is used to account for the wastewater utility which include fees and costs associated with the collection, transportation and treatment of wastewater.

Water Utility Fund – This fund is used to account for the water utility which includes fees and costs associated with the treatment and distribution of water.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Investments

Investments are recorded at fair value, which approximates cost at the balance sheet date.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Inventories

Inventory consisting of coal is stated at the lower of cost, determined by the moving average method, or market. Inventory of system components is stated at cost utilizing the first-in first-out (FIFO) method.

Prepaid Items

The Board incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the Board records an asset to reflect the investment in future services.

Restricted Assets

Certain proceeds of the Board's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate accounts and their use is limited by applicable bond covenants. The maintenance account is used to report resources set aside to subsidize potential deficiencies from the Board's operation that could adversely affect debt service payments. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Wastewater Utility include assets purchased with funds provided by participating townships. Depreciation on these assets was approximately \$99,000.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Refunding Costs

Refunding costs are amortized over the term of the related bonds using the interest method. Amortization is charged to interest expense.

Transfers

Transfers from the electric fund represent contributions to the City of Holland's general fund, based on Board and City agreements.

2. DEPOSITS AND INVESTMENTS

The Board's deposits and investments are included on the statement of net assets under the following classifications:

	June 30, 2008			
	Cash and Cash Equivalents	Investments	Restricted Assets	Total
Deposits	\$ 2,195,240	\$32,000,000	\$5,672,828	\$39,868,068
Investments	30,278,547	25,984,080	8,301,781	64,564,408
Cash on hand	2,100	-	-	2,100
Total	<u>\$32,475,887</u>	<u>\$57,984,080</u>	<u>\$13,974,609</u>	<u>\$104,434,576</u>

Statutory Authority

State statutes authorize the Board to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Board's investment policy allows for all of these types of investments.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

The Board chooses to disclose its investments by specifically identifying each. As of year-end, the Board had the following investments:

Investment	Maturity Date	Fair Market Value	Rating
Federal Home Loan Bank	07/20/2009	\$ 1,001,250	S&P AAA
Federal Home Loan Bank	12/17/2009	1,007,190	S&P AAA
Federal Home Loan Bank	03/30/2010	1,005,000	S&P AAA
Federal Home Loan Bank	04/16/2010	995,000	S&P AAA
Federal Home Loan Bank	10/30/2009	1,001,560	S&P AAA
Federal Home Loan Bank	12/03/2009	1,003,130	S&P AAA
Federal Home Loan Bank	12/17/2009	1,003,750	S&P AAA
Federal Home Loan Bank	05/28/2010	996,880	S&P AAA
Federal Home Loan Bank	09/24/2010	994,380	S&P AAA
Federal Home Loan Bank	11/29/2010	993,750	S&P AAA
Federal Home Loan Bank	12/16/2010	997,500	S&P AAA
Federal National Mortgage Association	01/14/2011	989,690	S&P AAA
Federal Home Loan Bank	02/22/2010	999,900	S&P AAA
Federal Home Loan Bank	05/05/2010	996,800	S&P AAA
Federal Home Loan Bank	05/05/2010	996,000	S&P AAA
Federal Home Loan Bank	05/26/2010	1,007,000	S&P AAA
Federal Home Loan Bank	05/28/2010	998,800	S&P AAA
Federal Home Loan Mortgage Corporation	06/09/2010	999,500	S&P AAA
Federal Home Loan Mortgage Corporation	06/09/2010	1,000,800	S&P AAA
Federal National Mortgage Association	06/10/2010	999,700	S&P AAA
Federal Home Loan Bank	09/17/2010	993,800	S&P AAA
Federal Home Loan Bank	09/24/2010	994,000	S&P AAA
Federal National Mortgage Association	11/05/2010	997,300	S&P AAA
Federal Home Loan Mortgage Corporation	12/02/2010	1,000,700	S&P AAA
Federal Home Loan Bank	12/30/2010	1,003,200	S&P AAA
Federal National Mortgage Association	11/28/2008	3,007,500	S&P AAA
MPPA Investments	Various	4,487,482	S&P AAA
Repurchase agreements*	N/A	32,092,846	Not rated
Total Investments		<u>\$ 64,564,408</u>	

*Denotes investments are collateralized by US government securities

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Board's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The Board's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board's investment policy does not have specific limits in excess of state law on custodial credit risk. As of year end, \$39,577,994 of the Board's bank balance of \$40,177,994 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Board does not have a policy for investment custodial credit risk which is more restrictive than state law. The Board is not exposed to custodial credit risk because \$32,092,846 of the above \$64,564,408 of investments is held in an overnight sweep account which is collateralized by US government securities while the remainder of investments are held in the name of the Board.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The Board's investment policy does not allow for investment concentration with any one financial institution to exceed 80% of the total portfolio. This requirement was not exceeded. More than 5 percent of the Board's investments are in repurchase agreements and government agency securities as noted above.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

The Board has earmarked cash and investment balances for system expansion, maintenance and insurance risk retention as follows:

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
City Trunkage	\$ -	\$ 289,314	\$ 169,478	\$ 458,792
Township Trunkage	-	142,567	-	142,567
Construction	-	-	3,839,878	3,839,878
Insurance/risk retention	<u>3,026,935</u>	<u>652,814</u>	<u>648,727</u>	<u>4,328,476</u>
	<u>\$ 3,026,935</u>	<u>\$ 1,084,695</u>	<u>\$ 4,658,083</u>	<u>\$ 8,769,713</u>

3. CAPITAL ASSETS

A summary of capital assets at June 30 is as follows:

	<u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>2008</u>	<u>Life-Years</u>
Capital assets, not being depreciated					
Land	\$ 6,770,352	\$ 32,339	\$ -	\$ 6,802,691	
Construction in progress	<u>6,343,273</u>	<u>1,549,107</u>	<u>5,996,850</u>	<u>1,895,530</u>	
	<u>13,113,625</u>	<u>1,581,446</u>	<u>5,996,850</u>	<u>8,698,221</u>	
Capital assets, being depreciated					
Production plant	166,344,674	1,835,524	226,586	167,953,612	5-50
Distribution/collection system	97,604,547	2,996,577	337,115	100,264,009	20-50
Transmission	33,076,646	6,324,561	23,189	39,378,018	20-50
General plant	<u>16,864,668</u>	<u>947,091</u>	<u>108,408</u>	<u>17,703,351</u>	5-50
	<u>313,890,535</u>	<u>12,103,753</u>	<u>695,298</u>	<u>325,298,990</u>	
Accumulated depreciation					
Production plant	103,841,335	5,697,943	210,155	109,329,123	
Distribution system	56,908,955	4,285,364	282,402	60,911,917	
Transmission	14,441,040	807,198	12,649	15,235,589	
General plant	<u>8,284,912</u>	<u>811,876</u>	<u>108,405</u>	<u>8,988,383</u>	
	<u>183,476,242</u>	<u>11,602,381</u>	<u>613,611</u>	<u>194,465,012</u>	
Net assets being depreciated	<u>130,414,293</u>	<u>501,372</u>	<u>81,687</u>	<u>130,833,978</u>	
Total capital assets, net	<u>\$ 143,527,918</u>	<u>\$ 2,082,818</u>	<u>\$ 6,078,537</u>	<u>\$ 139,532,199</u>	

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt outstanding is as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>
1997 Water Supply System Bonds, net of unamortized discount of \$0 and \$0 in 2008 and 2007, respectively, interest rates range from 3.85% to 5.375%	\$ 505,000	\$ -	\$ 505,000	\$ -	\$ -
2002A Electric Revenue Refunding Bonds, net of unamortized discount and deferred refunding cost of \$0 and \$0 in 2008 and 2007, respectively, interest rates range from 2.0% to 2.6%	2,705,000	-	2,705,000	-	-
2001 Ottawa County Refunding Sewage Bonds (City assumed 70% of total 2001 Ottawa County Disposal Bond issue), net of unamortized discount of \$187,385 and \$218,616 in 2008 and 2007, respectively, interest rates range from 2.8% to 4.75%.	4,002,384	-	490,269	3,512,115	546,000
2005A Water Supply System Revenue Refunding Bonds, net of unamortized discount of \$259,217 and \$309,563 in 2008 and 2007, respectively, interest rates range from 3.0% to 4.0%.	7,325,436	50,346	-	7,375,782	635,000
2005B Water Supply System Revenue Bonds, net of unamortized discount of \$123,471 and \$133,518 in 2008 and 2007, respectively, interest rates ranging from 3.0% to 5.0%.	<u>11,066,483</u>	<u>-</u>	<u>239,953</u>	<u>10,826,530</u>	<u>155,000</u>
Total long-term debt	25,604,303	50,346	3,940,222	21,714,427	<u>\$ 1,336,000</u>
Less amounts reported in:					
Current liabilities – current maturities of bonds payable	521,500	546,000	521,500	546,000	
Current liabilities payable from restricted assets	<u>3,460,000</u>	<u>790,000</u>	<u>3,460,000</u>	<u>790,000</u>	
Long-term debt – net of current portion	<u>\$ 21,622,803</u>	<u>\$ (1,285,654)</u>	<u>\$ (41,278)</u>	<u>\$ 20,378,427</u>	

The Board has created a statutory first lien on the net revenue of the Electric and Water funds to secure the payment of principal and interest on the revenue bonds. Certain bond ordinances require that reserve funds be maintained with a minimum balance during the period each issue is outstanding.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements

The annual requirements to maturity on debt outstanding as of June 30, 2008, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 1,336,000	\$ 892,636	\$ 2,228,636
2010	1,394,000	845,281	2,239,281
2011	1,443,500	795,137	2,238,637
2012	1,505,000	741,669	2,246,669
2013	1,563,000	683,760	2,246,760
2014-2018	5,758,000	2,602,070	8,360,070
2019-2023	6,305,000	1,433,219	7,738,219
2024-2025	2,980,000	150,750	3,130,750
Total	\$22,284,500	\$ 8,144,522	\$30,429,022

Covenants of the Revenue Bond Resolution provide for, among other things, restrictions on the transfer of funds, issuance of additional debt, creation of liens, and the sale and lease of property. In addition, the covenants require that the rates be set sufficient to cover the scheduled debt service.

5. PENSION PLANS

Defined Benefit Pension Plan

The information for the Board's defined benefit pension plan is as of December 31, 2007, which is the most recent information available.

Plan Description

The Board participates with the City in a defined benefit pension plan. The City's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is from 9.34% to 11.74% (depending on bargaining unit) of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the Board of Public Works.

Annual Pension Cost

For the year ended June 30, 2008, the Board's annual pension cost of \$895,157 for MERS was equal to the Board's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, ranges from 24 to 30 years, depending on the specific employee group.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$685,402	100%	\$ -
June 30, 2007	840,908	100%	-
June 30, 2008	895,157	100%	-

The schedule of funding progress for the City of Holland is included in the City of Holland's financial statements for the year ended June 30, 2008.

Defined Contribution Pension Plan

The Board participates in a defined contribution retirement plan which is administered by the ICMA in participation with MERS for nonbargaining employees. The defined contribution provisions of the plan require the Board to contribute 6% of covered employee payroll and to match employee contributions up to 2%. The participants direct their investments under defined contribution provisions. The Board contributed \$148,073 and employees contributed \$30,126 to the defined contribution plan.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The Board is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Board is self-insured for these risks through the City of Holland's self-insurance program except for workers' compensation risks which are covered through commercial insurance. The City purchases excess reinsurance and allocates risk management costs among the various funds of the City, including the Board of Public Works. The schedule of changes in the self-insured liability balances is included in the City of Holland's financial statements for the year ended June 30, 2008.

7. COMMITMENTS

The Board has contracts outstanding for remaining project costs of approximately \$507,699 for various electric utility projects, \$512,944 for various water projects, and \$1,022,027 for various wastewater projects.

8. LANDFILL CLOSURE AND POSTCLOSURE CARE

The Board owns and maintains a landfill for flyash and wastewater treatment bio solids. In accordance with Michigan Department of Environmental Quality requirements, funding for closure cost estimates of \$111,000 and post-closure cost estimates of \$216,450 have been assured with a \$100,000 letter of credit and \$9,280 held in trust at June 30, 2008.

The Board has recognized a liability for closure and postclosure cost of \$327,450 based on the percentage of landfill capacity used to date. The landfill is expected to have a remaining life of at least 50 years with approximately 74% of the landfill's capacity currently utilized. These estimates are expected to fluctuate based on current usage, inflation, deflation, changes in technology, applicable laws and regulations.

9. JOINT VENTURE

The Board entered into a joint venture, the Michigan Public Power Agency (MPPA), with 15 other municipal electric systems. The MPPA was formed to undertake the planning, financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. The Board is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing MI 48917.

Under the joint venture, the Board has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the Board to purchase from MPPA 15.66% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No. 1, which became operational in August 1984, and 26.35% of MPPA's 4.8% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980. These contracts required the Board to purchase approximately 38 and 10 megawatts of power, respectively, in 1995 and thereafter.

HOLLAND BOARD OF PUBLIC WORKS

NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2008, the Board recognized expenses totaling \$12,734,771 under the terms of the contract which represented \$2,885,655 for fixed operating costs, \$5,401,571 for debt service and \$4,447,545 for the purchase of power. Accounts payable to MPPA totaled \$2,502,892 at June 30, 2008. For the year ended June 30, 2007, the Board recognized expenses totaling \$12,670,881 under the terms of the contract which represented \$3,066,032 for fixed operating costs, \$5,281,703, for debt service and \$4,323,146 for the purchase of power. Accounts payable to MPPA totaled \$2,356,754 at June 30, 2007. Under the terms of its contracts, the Board must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1 and Consumers Energy's Campbell Unit No. 3. The estimated required payments presented below assume no early calls or refinancing of existing revenue bonds and 3.0% annual inflation of fixed operating costs.

A summary of future transactions with the MPPA is as follows:

Year	Belle River		Campbell		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2009	\$ 4,305,297	\$ 2,378,847	\$ 1,095,501	\$ 593,377	\$ 8,373,022
2010	4,305,373	2,450,213	915,089	611,178	8,281,853
2011	4,306,019	2,523,719	919,622	629,514	8,378,874
2012	4,306,001	2,599,431	922,180	648,399	8,476,011
2013	4,305,460	2,677,414	923,442	667,851	8,574,167
2014-2018	21,528,446	14,641,194	2,608,650	2,126,189	40,904,479
	\$43,056,596	\$27,270,818	\$ 7,384,484	\$ 5,276,508	\$ 82,988,406

Debt Service requirements expire in the years 2018 and 2016 for the Belle River and Campbell projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the Board's commitment for fixed operating costs to extend beyond these dates is dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The Board did not have an initial equity interest and does not participate in net income or losses.

10. LITIGATION

In the normal course of its activities, the Board is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. Although some actions have been brought, the Board has not experienced significant losses or costs. The Board is of the opinion that the outcome of any pending actions will not have a material effect on the Board's financial position or results of operations.

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SUPPLEMENTARY INFORMATION

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Net Assets

June 30, 2007

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 17,897,040	\$ 2,505,816	\$ 1,444,754	\$ 21,847,610
Investments	34,798,990	15,354,280	1,000,000	51,153,270
Receivables:				
Accounts receivable	5,603,759	777,832	558,839	6,940,430
Unbilled revenue	3,727,096	173,621	375,094	4,275,811
Special assessments and other	-	166,028	134,551	300,579
Accrued interest	482,318	111,921	9,333	603,572
Due from other funds of the				
City of Holland	317,641	146,587	23,428	487,656
Inventories	9,572,270	32,149	159,102	9,763,521
Prepaid expenses	194,281	5,503	4,963	204,747
Total current assets	<u>72,593,395</u>	<u>19,273,737</u>	<u>3,710,064</u>	<u>95,577,196</u>
Noncurrent assets				
Restricted assets:				
Cash and cash equivalents	2,949,819	680,888	8,011,522	11,642,229
Investments	5,576,384	1,487,300	1,751,528	8,815,212
Accrued interest	-	11,775	-	11,775
Total restricted assets	<u>8,526,203</u>	<u>2,179,963</u>	<u>9,763,050</u>	<u>20,469,216</u>
Capital assets:				
Land	4,810,124	260,673	1,699,555	6,770,352
Construction in progress	1,086,661	200,065	5,056,547	6,343,273
Plant and equipment	206,917,900	64,206,782	42,765,853	313,890,535
Accumulated depreciation	(134,375,247)	(32,710,450)	(16,390,545)	(183,476,242)
Total capital assets - net	<u>78,439,438</u>	<u>31,957,070</u>	<u>33,131,410</u>	<u>143,527,918</u>
Total noncurrent assets	<u>86,965,641</u>	<u>34,137,033</u>	<u>42,894,460</u>	<u>163,997,134</u>
Total assets	<u>159,559,036</u>	<u>53,410,770</u>	<u>46,604,524</u>	<u>259,574,330</u>

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 7,249,649	\$ 221,260	\$ 1,741,668	\$ 9,212,577
Accrued salaries and wages payable	426,531	181,149	131,386	739,066
Due to other funds of the				
City of Holland	15,097	31,106	216,019	262,222
Deposits	161,372	-	-	161,372
Accrued interest payable	-	15,697	-	15,697
Current maturities of bonds payable	-	521,500	-	521,500
Current liabilities payable from restricted assets:				
Principal	2,705,000	-	755,000	3,460,000
Accrued interest payable	35,165	-	384,873	420,038
Total current liabilities	10,592,814	970,712	3,228,946	14,792,472
Long-term debt - net of current portion	-	3,480,884	18,141,918	21,622,802
Total liabilities	10,592,814	4,451,596	21,370,864	36,415,274
Net assets				
Invested in capital assets, net of related debt	75,734,438	27,954,686	14,234,492	117,923,616
Restricted for:				
Debt service	-	-	1,758,365	1,758,365
Equipment replacement	200,000	2,179,963	-	2,379,963
Park Township	-	-	150,136	150,136
Cooperative payments	4,180,184	-	-	4,180,184
Construction	-	-	6,714,676	6,714,676
Unrestricted	68,851,600	18,824,525	2,375,991	90,052,116
Total net assets	\$ 148,966,222	\$ 48,959,174	\$ 25,233,660	\$ 223,159,056

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2007

	Electric Utility	Wastewater Utility	Water Utility	Total
Operating revenue				
Residential sales	\$ 15,294,284	\$ 1,526,486	\$ 1,714,338	\$ 18,535,108
Commercial sales	32,476,948	1,310,418	1,313,676	35,101,042
Industrial sales	31,149,056	573,507	773,213	32,495,776
Wholesale	-	1,674,070	1,375,981	3,050,051
Fees and other	2,356,035	2,230,962	491,041	5,078,038
Total operating revenue	81,276,323	7,315,443	5,668,249	94,260,015
Operating expenses				
Salaries and wages	3,052,467	1,030,842	739,648	4,822,957
Employee benefits	2,125,243	646,847	443,870	3,215,960
Production	50,734,846	1,913,715	520,296	53,168,857
Distribution	2,743,161	645,431	570,286	3,958,878
Administrative and general	3,231,425	1,415,540	1,360,247	6,007,212
Depreciation	8,970,714	1,801,985	1,188,357	11,961,056
Total operating expenses	70,857,856	7,454,360	4,822,704	83,134,920
Operating income (loss)	10,418,467	(138,917)	845,545	11,125,095
Nonoperating income (expense) - net				
Interest income	2,358,884	941,303	593,204	3,893,391
Interest expense	(124,966)	(237,951)	(839,308)	(1,202,225)
Insurance refunds	-	-	-	-
Gain (loss) on sale and disposal of capital assets	12,987	(94)	3,335	16,228
Total nonoperating income (expense) - net	2,246,905	703,258	(242,769)	2,707,394
Net income (loss) before contributions and transfers	12,665,372	564,341	602,776	13,832,489
Capital contributions				
Infrastructure	-	144,765	72,000	216,765
Trunkage	-	306,896	93,608	400,504
Total capital contributions	-	451,661	165,608	617,269
Transfers out to other funds of the City	(2,840,400)	-	-	(2,840,400)
Change in net assets	9,824,972	1,016,002	768,384	11,609,358
Net assets, beginning of year	139,141,250	47,943,172	24,465,276	211,549,698
Net assets, end of year	<u>\$ 148,966,222</u>	<u>\$ 48,959,174</u>	<u>\$ 25,233,660</u>	<u>\$ 223,159,056</u>

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows

For the Year Ended June 30, 2007

	Electric Utility	Wastewater Utility	Water Utility	Total
Cash flows from operating activities				
Receipts from customers and users	\$ 80,350,850	\$ 7,073,400	\$ 5,487,354	\$ 92,911,604
Payments to suppliers	(56,487,605)	(4,263,572)	(1,199,879)	(61,951,056)
Payments to employees	(5,177,710)	(1,677,689)	(1,183,518)	(8,038,917)
Net cash provided by (used in) operating activities	18,685,535	1,132,139	3,103,957	22,921,631
Cash flows from noncapital financing activities				
Insurance refunds	-	-	-	-
Transfers to other funds of the City	(2,840,400)	-	-	(2,840,400)
Net cash (used in) noncapital financing activities	(2,840,400)	-	-	(2,840,400)
Cash flows from capital and related financing activities				
Principal paid on long-term debt	(2,500,693)	(469,270)	(466,231)	(3,436,194)
Interest paid on long-term debt	(154,348)	(239,620)	(790,274)	(1,184,242)
Capital contributions received	-	306,896	93,608	400,504
Proceed from sale of capital assets	16,969	73	6,515	23,557
Purchase of property, plant and equipment	(2,585,062)	(782,579)	(3,264,669)	(6,632,310)
Net cash (used in) capital and related financing activities	(5,223,134)	(1,184,500)	(4,421,051)	(10,828,685)
Cash flows from investing activities				
Interest income	2,120,930	889,746	592,287	3,602,963
Purchase of investment securities	(40,375,374)	(16,841,580)	(2,751,528)	(59,968,482)
Proceeds from sale or maturities of investment securities	36,791,952	16,545,470	2,665,929	56,003,351
Net cash provided by (used in) investing activities	(1,462,492)	593,636	506,688	(362,168)
Net increase (decrease) in cash and cash equivalents	9,159,509	541,275	(810,406)	8,890,378
Cash and cash equivalents, beginning of year	11,687,350	2,645,429	10,266,682	24,599,461
Cash and cash equivalents, end of year	<u>\$ 20,846,859</u>	<u>\$ 3,186,704</u>	<u>\$ 9,456,276</u>	<u>\$ 33,489,839</u>
Statement of net assets classification of cash and cash equivalents				
Cash and cash equivalents	\$ 17,897,040	\$ 2,505,816	\$ 1,444,754	\$ 21,847,610
Restricted assets, cash and cash equivalents	2,949,819	680,888	8,011,522	11,642,229
Total cash and cash equivalents	<u>\$ 20,846,859</u>	<u>\$ 3,186,704</u>	<u>\$ 9,456,276</u>	<u>\$ 33,489,839</u>

(Continued)

HOLLAND BOARD OF PUBLIC WORKS

Combining Statement of Cash Flows (Concluded)

For the Year Ended June 30, 2007

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 10,418,467	\$ (138,917)	\$ 845,545	\$ 11,125,095
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	8,970,714	1,801,985	1,188,357	11,961,056
Changes in operating assets and liabilities which provided (used) cash				
Receivables	(836,623)	(96,094)	(182,863)	(1,115,580)
Due from other funds of the City of Holland	(88,850)	(145,949)	1,968	(232,831)
Inventories	81,812	8,877	(1,566)	89,123
Prepaid expenses	(63,077)	(110)	106	(63,081)
Accounts payable	215,441	(90,154)	1,240,831	1,366,118
Accrued salaries and wages payable	8,039	17,344	6,803	32,186
Due to other funds of the City of Holland	6,798	(224,843)	4,776	(213,269)
Deposits	(27,186)	-	-	(27,186)
Net cash provided by operating activities	<u><u>\$ 18,685,535</u></u>	<u><u>\$ 1,132,139</u></u>	<u><u>\$ 3,103,957</u></u>	<u><u>\$ 22,921,631</u></u>

Non-cash transaction

The Board received noncash capital contributions of \$144,765 and \$72,000 in the wastewater and water utilities, respectively.

(Concluded)

HOLLAND BOARD OF PUBLIC WORKS

Holland Area Waste Treatment Plant Reserve for Equipment Replacement

June 30, 2008

Year Ended June 30	Contributions		Interest		Improvements	Reserve Balance
	From Billings	Other	Rate	Amount		
1989	\$ 124,116	\$ 292,722	8.02 %	\$ 85,061	\$ 446,514	\$ 1,130,832
1990	124,116	14,045	8.21	95,519	72,939	1,291,573
1991	124,116	-	7.06	91,161	124,794	1,382,056
1992	124,116	-	5.49	64,501	538,427	1,032,246
1993	188,364	12,555	4.21	27,927	1,161,092	100,000
1994	195,180	-	3.46	6,640	18,347	283,473
1995	208,680	-	5.41	21,139	14,662	498,630
1996	224,508	2,190	6.24	36,008	45,287	716,049
1997	229,350	-	6.14	47,244	145,361	847,282
1998	244,651	-	6.33	58,314	163,917	986,329
1999	250,903	77,335	6.00	62,497	501,228	875,836
2000	272,594	804,159	5.59	44,448	619,684	1,377,352
2001	278,479	-	6.26	84,190	427,542	1,312,479
2002	298,340	-	3.64	34,041	173,806	1,471,054
2003	361,244	-	2.95	43,426	123,852	1,751,871
2004	403,722	-	(1.14)	(20,012)	116,985	2,018,596
2005	448,249	-	2.81	74,659	1,404,334	1,137,170
2006	518,220	-	1.90	25,608	117,955	1,563,043
2007	575,848	-	4.20	78,629	37,557	2,179,963
2008	609,002	-	4.79	113,392	345,695	2,556,662

NOTE: The ending reserve balance does not reflect any open purchase commitments at June 30.

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2008

	<u>Electric Utility</u>	<u>Wastewater Utility</u>	<u>Water Utility</u>	<u>Combined</u>
Land	\$ 4,810,124	\$ 260,673	\$ 1,731,894	\$ 6,802,691
Production plant	116,218,359	35,935,464	15,799,789	167,953,612
Distribution system	71,546,781	5,398,662	23,318,566	100,264,009
Transmission	11,301,260	19,642,221	8,434,537	39,378,018
General plant	11,218,857	4,010,543	2,473,951	17,703,351
Construction in progress	<u>761,048</u>	<u>502,581</u>	<u>631,901</u>	<u>1,895,530</u>
Total	215,856,429	65,750,144	52,390,638	333,997,211
Less accumulated depreciation	<u>(142,641,143)</u>	<u>(34,345,029)</u>	<u>(17,478,840)</u>	<u>(194,465,012)</u>
Net capital assets	<u><u>\$ 73,215,286</u></u>	<u><u>\$ 31,405,115</u></u>	<u><u>\$ 34,911,798</u></u>	<u><u>\$ 139,532,199</u></u>

HOLLAND BOARD OF PUBLIC WORKS

Schedule of Capital Assets

June 30, 2007

	Electric Utility	Wastewater Utility	Water Utility	Combined
Land	\$ 4,810,124	\$ 260,673	\$ 1,699,555	\$ 6,770,352
Production plant	114,942,699	35,666,982	15,734,993	166,344,674
Distribution system	70,108,733	5,235,359	22,260,451	97,604,543
Transmission	11,301,260	19,396,215	2,379,173	33,076,648
General plant	10,565,208	3,908,226	2,391,236	16,864,670
Construction in progress	1,086,661	200,065	5,056,547	6,343,273
Total	212,814,685	64,667,520	49,521,955	327,004,160
Less accumulated depreciation	(134,375,247)	(32,710,450)	(16,390,545)	(183,476,242)
Net capital assets	\$ 78,439,438	\$ 31,957,070	\$ 33,131,410	\$ 143,527,918

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

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**INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 22, 2008

Board of Directors
Holland Board of Public Works
Holland, Michigan

We have audited the financial statements of the business-type activities and each major fund of the Holland Board of Public Works (enterprise funds of the City of Holland, Michigan), as of and for the year ended June 30, 2008, which collectively comprise the Holland Board of Public Works' basic financial statements, and have issued our report thereon dated September 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holland Board of Public Works' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Holland Board of Public Works' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Holland Board of Public Works' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Holland Board of Public Works' financial statements that is more than inconsequential will not be prevented or detected by the Holland Board of Public Works' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Holland Board of Public Works' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holland Board of Public Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

September 22, 2008

To the Board of Directors
Holland Board of Public Works

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the *Holland Board of Public Works* (the "Board") for the year ended June 30, 2008, and have issued our report thereon dated September 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Board's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter, and our meeting about planning matters on August 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the

appropriateness of accounting policies and their application. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The allowance for doubtful accounts is estimated based on prior experience with collections.
- Depreciation expense has been calculated based on estimated lives of the respective assets.
- Landfill closure and post-closure costs have been calculated based on state guidelines and landfill utilization to date.
- Future fixed operating costs paid to Michigan Public Power Agency have been calculated based on future debt service requirements and inflation of other costs at 3%.
- Contributed water and sewer infrastructure values have been estimated at current bid cost which is discounted to the date of acquisition utilizing historical construction inflation data.
- The allocation of shared costs between the funds has been determined based on studies of related time expended, services performed or other applicable activities and data.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Holland Board of Public Works* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.